File

UNION OIL COMPANY OF CANADA LIMITED
ANNUAL REPORT 1970

CONTENTS

HEAD OFFICE

335 Eighth Avenue S.W., Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

The Royal Trust Company, Montreal, Toronto, Winnipeg, Calgary, Vancouver

SUBSIDIARY

Union Oil Holdings Limited

STOCK EXCHANGE LISTINGS

The shares of the Company are listed on the Toronto, Montreal, Vancouver and Calgary Stock Exchanges.

The acquisition of shares of the Company is exempt from the application of the United States Interest Equalization Tax Act.

AUDITORS

McDonald, Currie & Co.

UNION OIL COMPANY OF CANADA LIMITED

DIRECTORS

R. A. BURKE
Senior Vice-President, Union Oil Company of California,
Los Angeles, California

W. E. FARRAR
President, Union Oil Company of Canada Limited,
Calgary, Alberta

H. S. FOLEY
Vice-President and Director, Bank of Montreal,
Vancouver, British Columbia

FRED L. HARTLEY
President, Union Oil Company of California,
Los Angeles, California

C. F. PARKER
Senior Vice-President, Union Oil Company of California,
Los Angeles, California

W. C. RILEY, O.B.E.
Chairman of the Board, The Canadian Indemnity Company,
Winnipeg, Manitoba
(Deceased, October 16, 1970)

JAMES M. TORY, Q.C.
Partner, Tory, Tory, DesLauriers and Binnington,
Toronto, Ontario

OFFICERS

FRED L. HARTLEY
Chairman of the Board

W. E. FARRAR
President

C. W. DUMETT, JR.
Vice-President, Exploration

R. R. ROETHKE
Vice-President, Production

J. C. BROWNING
Vice-President, Refining
and Marketing

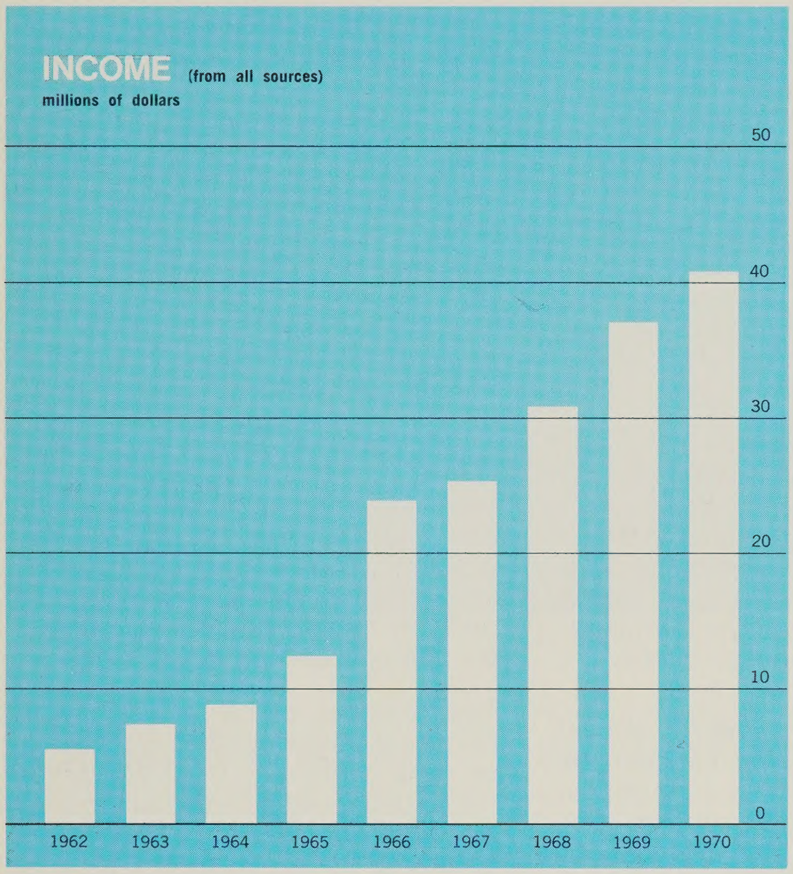
W. P. TAYLOR
Secretary and General Counsel

J. I. BELL, C.A.
Treasurer, Comptroller,
and Assistant Secretary

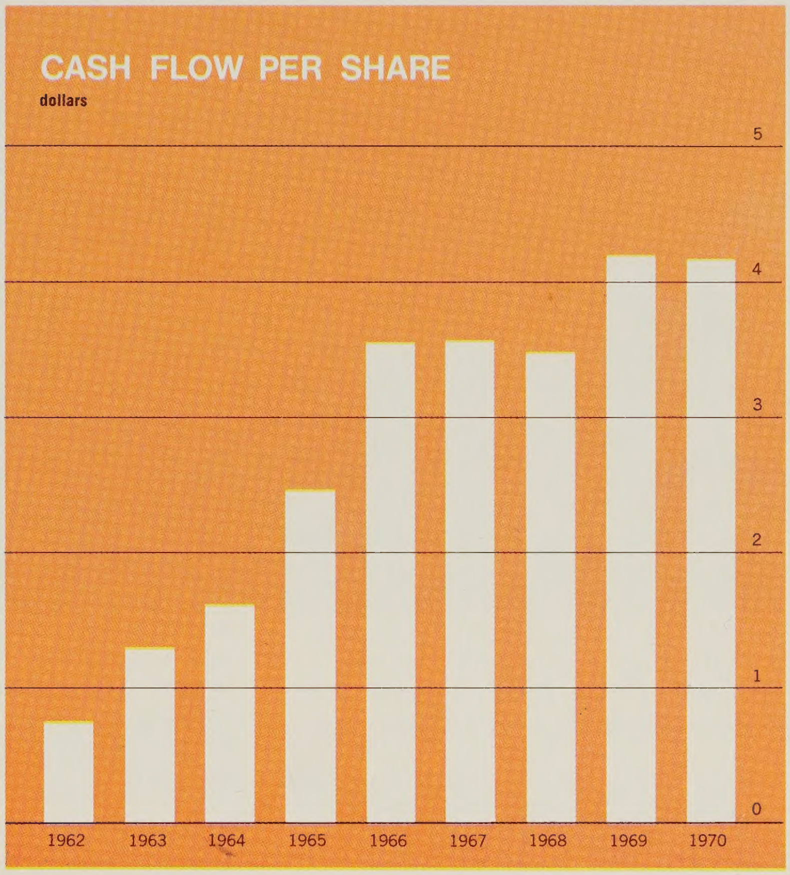
Incorporated under the Laws of Canada

FINANCIAL AND OPERATING SUMMARY

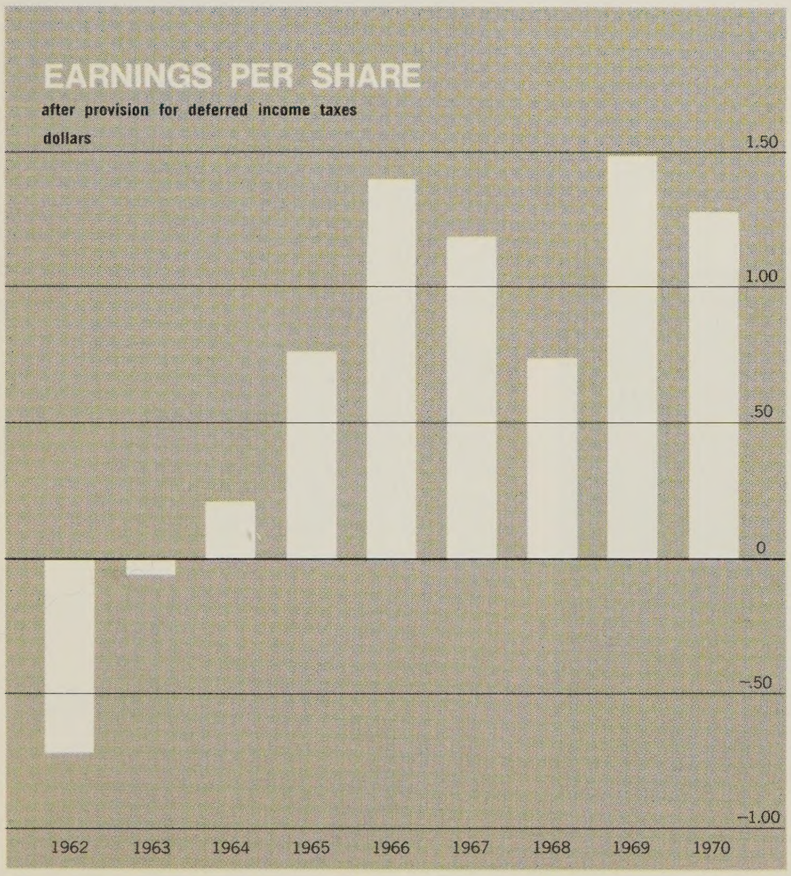
FINANCIAL	1970	1969
Total income	$40,703,000	$37,143,000
Cash flow (excluding non-recurring item)	19,930,000	20,031,000
– per share	4.16	4.18
Earnings for the year (excluding non-recurring item)	6,140,000	7,151,000
– per share	1.28	1.49
Non-recurring item		
Cash generated	1,811,000	—
– per share	0.38	
Earnings provided	1,257,000	—
– per share	0.26	
Working capital at year end	4,756,000	755,000
Capital expenditures during year	15,966,000	19,106,000
OPERATING		
Net daily production		
Crude oil and condensate (bbls)	31,920	29,770
Liquefied petroleum gases (bbls)	1,369	392
Natural gas (mcf)	44,089	42,653
Sulphur (long tons)	241	206
Reserves at year end		
Crude oil and condensate (bbls)	149,015,000	148,109,000
Liquefied petroleum gases (bbls)	6,428,000	6,686,000
Natural gas (mcf)	472,506,000	466,168,000
Sulphur (long tons)	1,241,000	1,318,000
Refinery runs (bbls)	1,877,000	2,088,000
Refined product sales (bbls)	1,526,000	1,478,000
Net acreage at year end	5,681,000	6,628,000



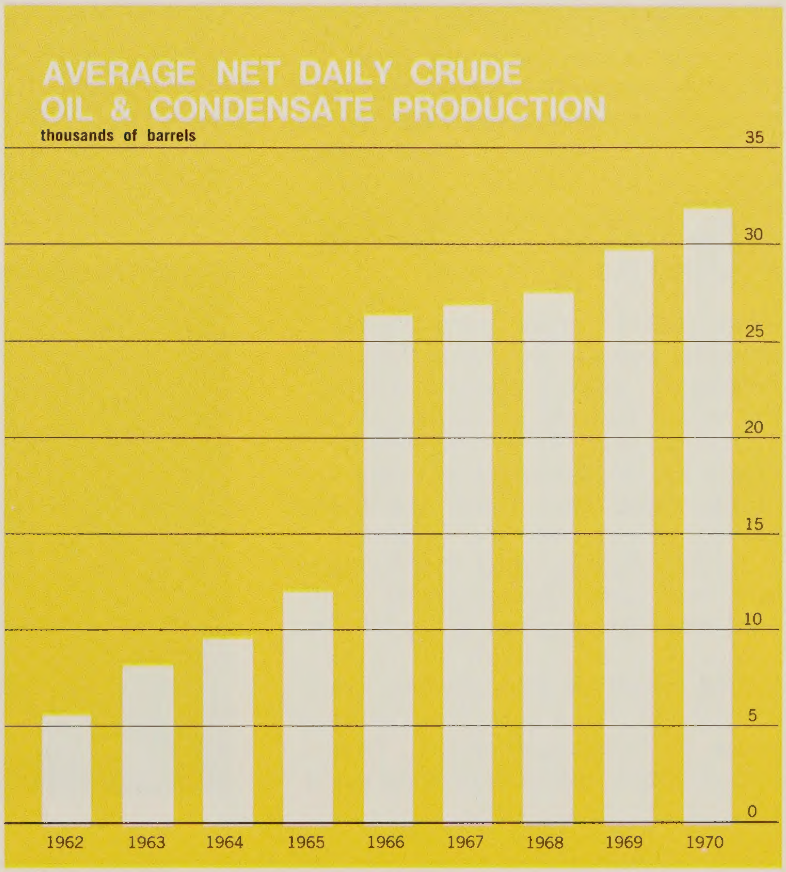
INCOME (from all sources)
millions of dollars
50
40
30
20
10
0
1962
1963
1964
1965
1966
1967
1968
1969
1970



CASH FLOW PER SHARE
dollars
5
4
3
2
1
0
1962
1963
1964
1965
1966
1967
1968
1969
1970



EARNINGS PER SHARE
after provision for deferred income taxes
dollars
1.50
1.00
.50
0
-.50
-1.00
1962
1963
1964
1965
1966
1967
1968
1969
1970



AVERAGE NET DAILY CRUDE OIL & CONDENSATE PRODUCTION
thousands of barrels
35
30
25
20
15
10
5
0
1962
1963
1964
1965
1966
1967
1968
1969
1970

DIRECTORS' REPORT TO THE SHAREHOLDERS

As this is the tenth annual report issued to the shareholders, it is appropriate to present a review of past events. This review appears as the centre section of this report. The past decade has been one of rapid growth and diversification for the Company. Since year end 1961, production of crude oil and condensate has increased sevenfold and reserves fourfold. Natural gas sales are up by a factor of five, while the reserves have doubled. During the period since the 1961 report, in excess of 65 million barrels of crude oil and condensate and 80 billion cubic feet of gas have been produced. The Company entered the refining and marketing field in 1967. An 8,000 barrel per day refinery in Prince George supports a marketing organization which now sells Union 76 products in British Columbia and Alberta.

During 1970, the Company improved its financial position and operating results. At year end, the Company had retired its bank loan and increased working capital to $4,756,000. Earnings for the year, including a non-recurring item resulting from the sale of shares in a pipeline company, totalled $7,397,000. Cash flow from operations was $19,930,000. The non-recurring item contributed an additional $1,811,000 to the cash generated during the year.

Production of crude oil and condensate, natural gas, and liquefied petroleum gases increased during the year. Net daily production for 1970 averaged 31,920 barrels of crude oil and condensate, 44.1 million cubic feet of gas, and 1,369 barrels of propane and butane. Sulphur sales declined to 68,068 long tons and sulphur prices continued to deteriorate.

In December 1970, a general price increase of 25¢ a barrel for Canadian crude oil became effective. This improvement in the well head price of oil is the first general increase for eight years, and gives overdue recognition to the fact that the costs of finding and producing oil have been increasing along with the increasing costs of other industries. There is every indication that additional export market demand will create greater sales for both Canadian crude oil and natural gas. The combination of these factors should contribute to a significant improvement in earnings in 1971.

The tempo of exploration for oil and gas in Canada's far north has been escalating, and an increasing number of wells is being drilled in the region. Recent discoveries, although of unknown commercial significance, are very encouraging. The Company has substantial holdings in this region and intends to commence drilling in 1971. In addition, new lands will be acquired in areas of interest.

The Company's refinery at Prince George continued to maintain an excellent performance record. During 1970, the refinery became a major supplier of paving asphalts and road oils in the north central region of British Columbia. Nineteen new marketing units were constructed during the year. The Company now has a network of 77 retail outlets and five marketing plants.

One item of concern which has influenced business and investment decisions since its introduction is likely to become a reality in 1971—that is, the tax reform based on the "White Paper". This is of real concern, not only for the effect it may have on the Company and oil industry operations, but for the unknown impact it could have on the economy of Canada and the general health of business and, inevitably, on employment and general prosperity. In view of current economic conditions it would not seem appropriate for the Government to initiate any far-reaching tax changes at the present time.

The directors, officers and Company personnel deeply regret the death on October 16, 1970, of W. Culver Riley, O.B.E., one of the original directors. Mr. Riley contributed greatly to the direction of Company affairs, and much benefit was received from his extensive knowledge and experience.

The offices in which various company departments had been accommodated were consolidated in May of 1970 in new office space on six floors of the Royal Bank Building in the core of downtown Calgary.

The employees have been prime contributors to the successes recorded over the past ten years. The Company has been fortunate in maintaining a talented and effective staff through a decade of continuous expansion. These people provide the base on which the future of the Company depends.

By Order of the Board

W.E. Farrar

President.

February 18, 1971.

REVIEW OF OPERATIONS

LAND HOLDINGS at December 31, 1970 (acres)

	Reservations and Permits*		Leasehold		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	755,000	527,000	1,382,000	812,000	2,137,000	1,339,000
British Columbia	1,713,000	1,169,000	892,000	400,000	2,605,000	1,569,000
Saskatchewan	56,000	31,000	897,000	612,000	953,000	643,000
Manitoba	—		50,000	49,000	50,000	49,000
N.W.T., Yukon & Arctic Islands	3,006,000	1,893,000	366,000	188,000	3,372,000	2,081,000
TOTAL	5,530,000	3,620,000	3,587,000	2,061,000	9,117,000	5,681,000

* Approximately 50% of the area of each permit or reservation may be converted to leases.

EXPLORATION

As in past years, Union engaged in a variety of exploration projects in Alberta, British Columbia, Saskatchewan, the Yukon and Northwest Territories. Particular attention was given to developing deep Devonian reef prospects in west central Alberta and adjacent portions of northeastern British Columbia. A Union geological field party in the British Mountains of the Yukon Territory, during a successful field season favored with unusually good weather, collected extensive stratigraphic information bearing upon Union's holdings in the Beaufort Sea and onshore in the Blow River region. A short field program was completed on Graham Island in the Queen Charlotte Islands, which supported continued interest in this area.

A major portion of the geophysical program was directed to Devonian reef exploration on large blocks of land, acquired in 1969, located south of Dawson Creek, British Columbia. Other surveys included completion of seismic evaluation of land holdings in the Northwest Territories and offshore in the Beaufort Sea.

During 1970, the Company acquired 394,000 net acres of petroleum and natural gas rights, of which 340,000 acres were purchased at a cost of $1,629,000, and 54,000 acres were obtained under various farmin or option agreements. Lands acquired include smaller tracts offsetting successful exploratory or development stepout wells, as well as substantial amounts of reservation and permit acreage in Alberta and British Columbia. During the year, 1,252,000 acres were surrendered following geological or geophysical evaluation, and 89,000 acres were assigned to other companies having been earned by the drilling of wells on Company lands. A total of 137,000 acres was surrendered to the Crown on conversion of permits to lease. At year end, the Company held 5,681,000 net acres of petroleum and natural gas rights, of which 295,000 acres were held by production.

DRILLING

The Company participated in the drilling of 54 exploratory and 73 development wells in which it had partial or full interest. The table at the top of page 6 summarizes this activity.

The exploratory drilling program resulted in the discoveries listed below.

Field or Area	Nature of Discovery	Producing Formation	Approximate Depth
BRITISH COLUMBIA			
Ladyfern	Gas	Cretaceous	3400′
Spruce	Gas	Triassic	3800′
SASKATCHEWAN			
Gardenhead	Oil	Jurassic	4600′
Gull Lake	Oil	Cretaceous	3700′

Development drilling highlights during the year comprised the completion of several extension oil wells, at the Kaybob South Triassic field in Alberta and at the Suffield

DRILLING OPERATIONS 1970

	Oil		Gas		Service		Dry		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
EXPLORATORY WELLS										
Alberta	—	—	—	—	—	—	20	7.3	20	7.3
British Columbia	1	0.5	2	1.0	—	—	13	5.3	16	6.8
Saskatchewan	2	0.8	—	—	—	—	15	2.9	17	3.7
Northwest Territories	—	—	—	—	—	—	1	0	1	0
Total	3	1.3	2	1.0			49	15.5	54	17.8
DEVELOPMENT WELLS										
Alberta	8	4.0	2	0.7	—	—	4	1.8	14	6.5
British Columbia	11	4.3	1	0.3	—	—	1	0.5	13	5.1
Saskatchewan	34	8.5	—	—	4	1.5	8	2.0	46	12.0
Total	53	16.8	3	1.0	4	1.5	13	4.3	73	23.6

and West Beverley fields in southwestern Saskatchewan. A number of infill productivity oil wells were completed at the Milligan and East Peejay fields to optimize ultimate recovery from these Triassic zone oil fields.

PRODUCTION

CRUDE OIL AND CONDENSATE

Record levels of crude oil and condensate production were again achieved in 1970, with a net daily average producing rate of 31,920 barrels. This represents an increase of 2,150 barrels per day, or 7.2%, over the daily average for the previous year. Crude oil production accounted for 28,488 daily barrels of the 1970 production, the remainder being condensate. The principal gains in crude oil production came from the Milligan field in British Columbia and from the Kaybob South, Red Earth and Virginia Hills fields in Alberta.

The average well head price received from the sale of oil and condensate in 1970 was $2.44 per barrel. On December 1, 1970, the price for low and medium gravity crudes in southwestern Saskatchewan was increased by $0.25 per barrel and, effective December 15, 1970, a general crude oil price increase of a similar amount was applied to all other Canadian crude oils.

The Company participated in five additional oil field unitization projects during 1970. These units are formed by consolidating the operations of various owners of production within a reservoir. At the year end, Union held a participating interest in 57 units and was the operator of four of them. Most of the units are under some form of enhanced recovery operation (water flooding, gas injection or in situ combustion), resulting in higher ultimate recovery of oil from the reservoirs and improvement of producing rates.

Additional condensate production from Kaybob South following the resolution of operating problems experienced through much of 1970, increased allowables for Alberta oil, improved responses from the Peejay and Wildmint water floods, and production from new wells should result in higher producing rates in 1971.

PRODUCTION OF NATURAL GAS

Average net mcf/d

	1970	1969
ALBERTA		
Kaybob South	6,840	5,540
Crossfield	4,201	2,640
Alexander	1,752	2,490
Westlock	1,299	2,680
Others	5,493	8,093
	19,585	21,443
BRITISH COLUMBIA		
Clarke Lake	16,621	15,610
Willow	2,059	
Others	1,230	
	19,910	15,610
SASKATCHEWAN		
All Sources	4,594	5,600
TOTAL	44,089	42,653

PRODUCTION OF CRUDE OIL AND CONDENSATE
Average net daily barrels

ALBERTA	1970	1969
Kaybob South	4,441	4,020
Red Earth	2,300	2,070
Virginia Hills	1,842	1,580
Sturgeon Lake South	1,239	1,150
Others	2,031	1,570
	11,853	10,390
BRITISH COLUMBIA		
Milligan	4,306	3,900
East Peejay	1,122	1,370
Aitken	906	790
Others	1,299	1,010
	7,633	7,070

SASKATCHEWAN	1970	1969
North Premier	1,638	1,760
Cantuar	1,503	1,330
Battrum	1,502	1,440
Fosterton	1,309	1,330
Delta	885	1,080
Success	801	770
Steelman	640	680
Nottingham	583	810
Hastings	562	620
Instow	555	540
Others	2,156	1,640
	12,134	12,000
MANITOBA	300	310
TOTAL	31,920	29,770

NATURAL GAS AND LIQUEFIED PETROLEUM GASES

The Company's sale of natural gas in 1970 averaged 44.1 million cubic feet per day, compared with 42.7 million cubic feet the previous year. The average well head price received for the natural gas was 12.1 cents per thousand cubic feet.

During 1970, the Company, as Operator for a number of producers, constructed 43 miles of gas gathering line in northeastern British Columbia. Union has a 36% interest in this system, which collects associated gas from various oil fields, including Milligan, Wildmint and Peejay, and gas-well gas from certain fields served by the line. At year end, 20,000 mcf of gas daily was being transported through this line for sale to the Westcoast system.

Sales of liquefied petroleum gases (propane and butane) averaged 1,369 barrels per day, compared with 392 barrels per day in 1969. The average plant price received for liquefied petroleum gases was $1.03 per barrel. Production rates and product prices should both show modest increases in 1971.

RESERVES

	1970	1969
Crude oil and Condensate (bbls)		
Alberta	86,555,000	86,383,000
British Columbia	16,337,000	15,469,000
Saskatchewan	45,384,000	45,431,000
Manitoba	739,000	826,000
Total	149,015,000	148,109,000
Natural gas (mcf)		
Alberta	242,979,000	247,496,000
British Columbia	205,233,000	192,554,000
Saskatchewan	18,899,000	20,723,000
Northwest Territories	5,395,000	5,395,000
Total	472,506,000	466,168,000
Liquefied petroleum gases (bbls)		
Alberta	6,428,000	6,686,000
Sulphur (long tons)		
Alberta	1,241,000	1,318,000

SULPHUR

The net sales of sulphur during 1970 totalled 68,068 long tons, a 5% decrease from sales of 71,757 long tons the previous year. Continued price deterioration for sulphur was experienced, resulting from oversupply conditions prevailing in the domestic and world sulphur markets, coupled with extremely high ocean freight rates for the offshore market. The average

plant net-back realized for sulphur sales during the year was $8.42 per long ton, compared with $19.67 per long ton in 1969. This market condition is not expected to improve in the near future.

RESERVES

The Company's net proven developed and undeveloped reserves at year end, with comparative figures for the previous year, as calculated by its reservoir engineers, are summarized in the accompanying table. The developed reserves are the quantities that can be recovered through existing facilities. Undeveloped reserves are the volumes estimated to be recoverable from wells to be drilled on proven undrilled acreage, from existing wells requiring recompletion and as the result of the installation of new facilities for fluid injection or gas processing.

REFINING

The Company's refining operation at Prince George processed 1,877,000 barrels of crude oil and condensate during the year, a calendar day charge rate of 5,143 barrels. The refinery produced a range of petroleum products of the highest quality, maintaining its excellent operating performance record throughout the year.

The new vacuum distillation unit and associated facilities produced 126,000 barrels of paving asphalts and road oils for shipment during the road construction season to meet an increasing demand for this type of product in the north central region of British Columbia.

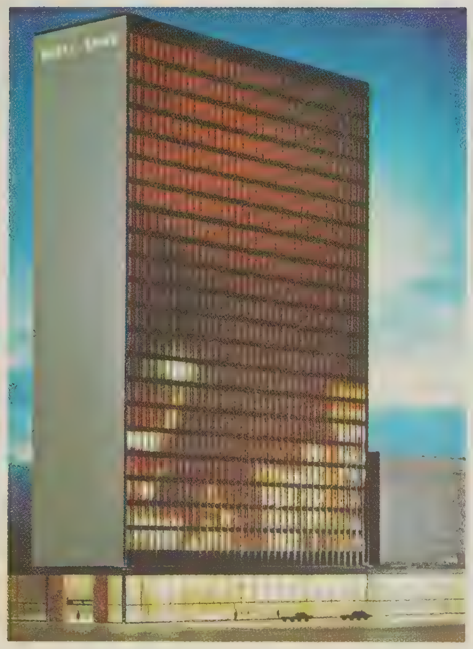
MARKETING

Further progress can be reported in expanding the Company's petroleum marketing organization in British Columbia and Alberta. There are now 77 retail outlets and five marketing plants in operation, with four additional units under construction and scheduled for completion early in 1971.

The Company has established an excellent network of retail outlets throughout the marketing area on major highway routes and in progressive communities. The limited representation developed in metropolitan areas, such as Vancouver, reflects the special care and selectivity being exercised in expanding the marketing organization in the major cities having regard to the high cost of sites, and zoning and other operational restrictions.

Total volume of petroleum product sales for the year was 1,526,000 barrels. In view of the generally depressed economic conditions encountered in the marketplace, the unsettled labor situation in many areas prevalent throughout 1970, and the very competitive nature of the petroleum marketing business, the Company is pleased to have maintained its market position and looks forward to advancing its program during the coming year.

A PATTERN FOR PROGRESS



It is a truism that events of the past tend to set patterns for the future. The people of Union Oil take pride in the Company's historical record and view these events as a challenge to extend in the future the growth pattern so successfully developed.

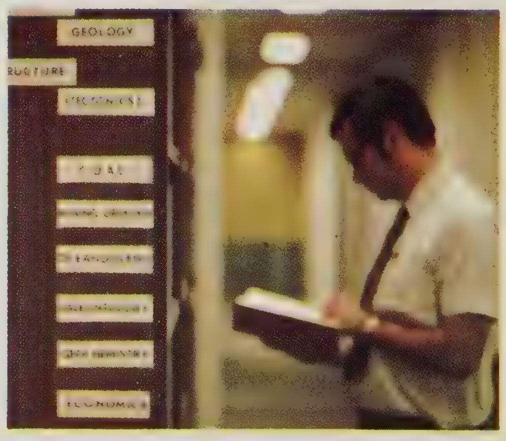
The Company was incorporated under the laws of Canada in 1921 as a private company wholly owned by the Union Oil Company of California. From 1921 to 1945 the organization was engaged in the distribution and sale of petroleum products in Western Canada, and the orange disk, carrying the 76 trademark, was a familiar sight in British Columbia and Alberta. In 1945 the Company sold its operating assets.

During the period from 1949 to 1961, lease acquisitions and exploration operations were conducted in Canada by Union of California. In August, 1961, Union Oil Company of Canada Limited acquired for shares all of the Canadian assets of the parent company, principally oil and gas lands, rights and leases covering approximately 4.9 million acres in Western Canada and the Northwest Territories. Union of Canada was converted to a public company, selling 600,000 shares to the public in Canada and listing its shares on Canadian stock exchanges.

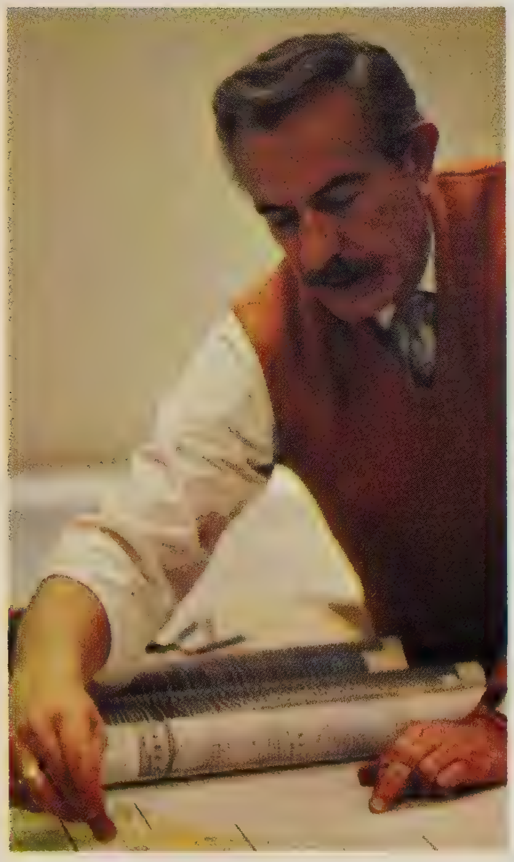
The year 1961 marked commencement of a very interesting period in this Company's history, as operations took on a new identity, conducted by a very active Canadian oil company. It was a challenging time for the eighty people on staff engaged in the search for new oil and gas reserves in this part of the world. At Kaybob, a Beaverhill Lake gas discovery was made, which later proved significant in the Company's development.

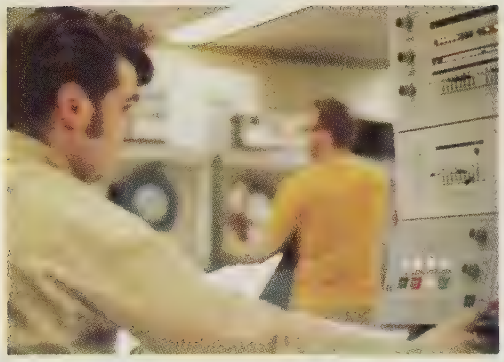
The tempo of exploratory drilling increased in 1962, and two significant oil discoveries were made by Union and partners. At Kaybob South, oil was discovered in the Triassic formation at 6,900 feet. A Swan Hills reef oil discovery was made at Freeman. The Aitken Creek oil discovery of 1959 was developed into a productive field. The Company purchased Williamson Oil & Gas Ltd., a company which had producing properties and land holdings located chiefly in southeastern Saskatchewan.

The years from 1962 to 1964 were times of growth and progress. In 1963 the Company acquired E. H. Vallat Ltd., a private company with producing acreage. Union drilled or participated in 151 development wells, and the staff supervised the



installation of extensive production facilities to bring crude oil and condensate yields to a new high of 9,700 barrels per day throughout the year 1964. Exploration for new oil and gas reserves continued, with oil discoveries by Union and partners at Bulrush and Nettle in British Columbia. Successful step-out wells were drilled in the Kaybob South Triassic pool. Union completed an oil discovery in the Mitsue Gilwood trend and proceeded with development drilling.



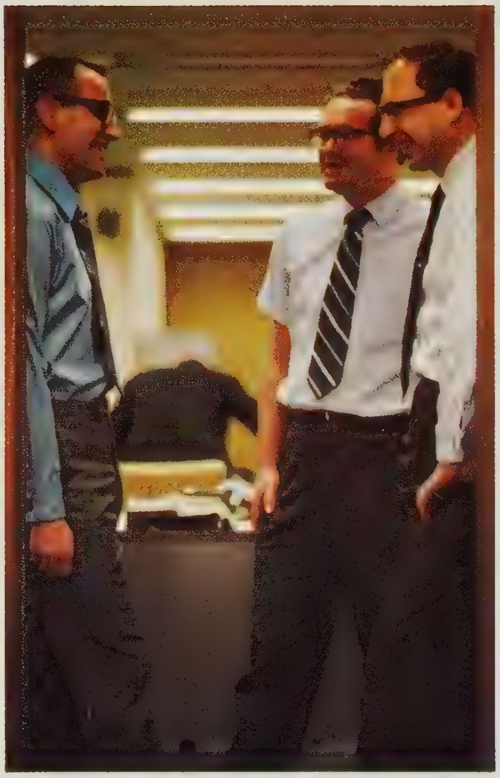


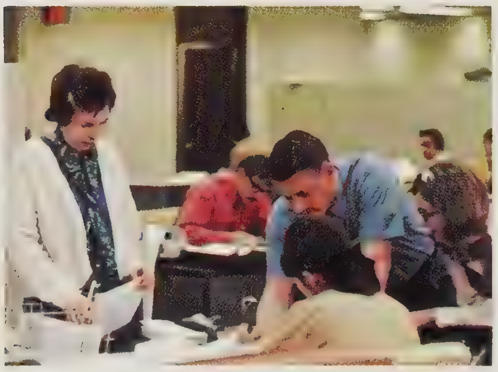
The pace was maintained in 1965, with oil discoveries at Crush and East Peejay in British Columbia. The Fort St. John office had been established as headquarters for field operations in this area, and this was the centre of much activity. An extension of the Kaybob South Beaverhill Lake gas reservoir with success at Kaybob 7-14 proved to have major significance. Sale of the Company's interests in the Mitsue area yielded

a non-recurring profit of $12,000,000 and provided substantial working capital. Acquisition of the Pure Oil properties and operations in Canada from Union's parent company in 1965 expanded the scope of Union appreciably. Reserves for the first time exceeded 100,000,000 barrels. Members of the Pure Oil staff were a welcome addition to the team at Union Oil.

Integration of the land holdings and producing properties so acquired into the total Union Oil picture occupied much of the staff's time during 1966. Increased crude oil and natural gas yields from all properties raised the total daily production of crude oil and condensate to 26,405 barrels per day in 1966, with natural gas sales at 24,028 mcf per day.

In 1966, construction commenced at a site at Prince George, British Columbia, of a new oil refinery, which had been designed to utilize crude oil production from the Company's fields in northeastern British Columbia. Plans were formulated to embark on a petroleum marketing program, with a network of service stations throughout the communities and on the major highway routes of British Columbia and Alberta.




In 1967, a successful step-out well was completed at Clarke Lake in northeastern British Columbia, thereby extending this major gas field to the southwest. Substantial new oil reserves were confirmed at Red Earth in northern Alberta with discovery of another pool. The growth trend established in prior years carried through 1967, with high points being recorded in crude oil, condensate and natural gas production. Reserves reached 150 million barrels of crude oil, condensate and natural gas liquids. The reserves of natural gas exceeded 400 billion cubic feet.

Construction of the Kaybob South gas processing plant in 1968 had great impact on the Company's growth in the following years. Development of this important reservoir, and completion of the plant, marked Union's entry in a major way into the sales arena for condensate, LPG and sulphur.

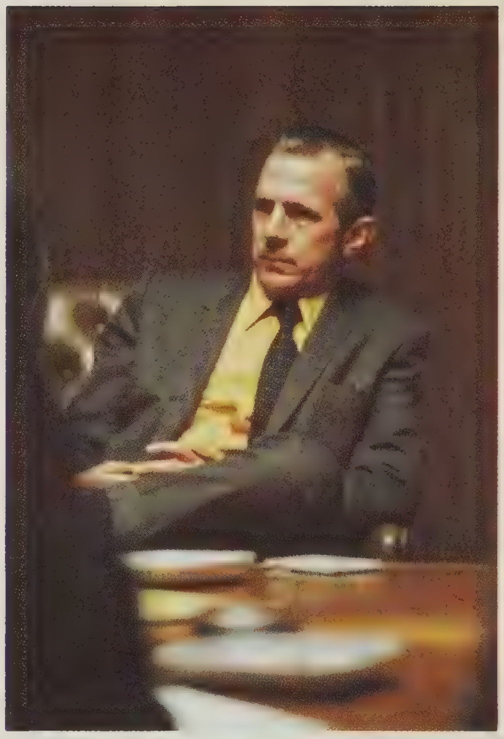
One of the year's highlights centered on acquisition of exploratory lands in the far north — the Yukon and Northwest Territories and offshore in the Beaufort Sea. These acquisitions confirmed Union's interest in the future exploration of Canada's northland.

The refinery at Prince George was officially opened in June of 1968, with industry leaders and government officials in attendance. Expansion of the petroleum marketing organization to 42 retail outlets was accomplished by year end, by which time field marketing offices had been opened at Vancouver, Kamloops and Prince George. The many activities underway during this period required the addition of competent and knowledgeable people to our staff. Accounting services were expanded, a credit department organized, marketing people joined the team, and development of a data processing group was initiated, followed in 1969 by the installation of computer equipment. The need for more office space was recognized, and studies were commenced to locate a new headquarters.

In closing out the sixties, the Company ended the decade on a high note. Entry into the exploratory play in the far north intensified geophysical and geological programs. Large permit holdings acquired in British Columbia and additional acreage obtained offshore in the Beaufort Sea provided the Company with new prospective lands. Discovery of the West Beverley oil field in southwestern Saskatchewan proved to be the exploration highlight of the year. The Refining and Marketing segment of the Company's operations expanded during the year. Production and sales of crude oil, natural gas, sulphur, condensate, LPG and refined oil products were at appreciably higher levels, compared with previous years.

The scope of the Company's interests had broadened to the point in 1969 where 286 people were involved in the diversified business of operating a fully integrated oil company. In May of 1970, the people of Union moved from several locations in the city to headquarters located on six floors of the new Royal Bank building in the heart of downtown Calgary. This move marked the culmination of more than two years of planning and preparation, two years during which Company management and consulting firms assessed Union's needs for the present and for the future.

An environment has been created in this new headquarters which will improve efficiency and be conducive to a new feeling of pride on the part of everyone connected with this Company. Union Oil is a proud company. Proud of the achievements of the past, proud of the people who have been real contributors to the growth of the Company, and proud to be a part of a major industry that has made such a substantial contribution to the growth of this country.



FINANCIAL

Earnings for the year, before a non-recurring item, were $6,140,000 ($1.28 a share), compared with $7,151,000 ($1.49 a share) in 1969.

Cash generated from operations, excluding the non-recurring item, totalled $19,930,000 ($4.16 a share), down slightly from $20,031,000 ($4.18 a share) in 1969.

During 1970, the Company sold its interest in Producers Pipelines Ltd., a non-controlled crude oil pipeline company operating in the Province of Saskatchewan, for $1,811,000. As a result of the sale, earnings for the year were increased by $1,257,000 ($0.26 a share), and cash generated was increased by $1,811,000 ($0.38 a share).

A comparative analysis of income from all sources follows:

	1970	1969
Crude oil	$24,548,000	$22,423,000
Condensate	3,888,000	3,347,000
Natural gas	1,947,000	1,664,000
Liquefied petroleum gases	517,000	111,000
Sulphur	573,000	1,412,000
Refined products	7,820,000	6,928,000
Interest income	96,000	94,000
Dividends from non-controlled companies	51,000	122,000
Profit on sale of properties	102,000	9,000
Facility rental and service charges	978,000	985,000
Miscellaneous income	183,000	48,000
	$40,703,000	$37,143,000

Total expense for the year was $33,513,000, an increase of $4,221,000, or 14%, compared with 1969. Cash operating expense increased $3,661,000, or 21%, over the previous year. The largest item in this increase related to the cost of production operations. Other increased expenditures reflected the expanding activities of the Company. Non-cash expense for the year totalled $12,740,000, up 5% from the amount of $12,180,000 charged in the accounts for 1969.

Capital expenditures are summarized as follows:

	1970	1969
Development	$ 5,542,000	$ 6,170,000
Exploration	7,082,000	6,695,000
Refining and Marketing	2,544,000	5,904,000
Other	798,000	337,000
	$15,966,000	$19,106,000

The Company began 1970 operations with working capital of $755,000 and a term loan of $2,040,000. During the year, the generation of funds from operations and other sources was sufficient to allow the Company to make capital expenditures of $15,966,000, to retire its bank loans in advance of the dates scheduled, and to accumulate working capital in the amount of $4,756,000.

The Company has no liability for the payment of income taxes at the present time; however, provision for deferred income taxes is made, as described in Note 3 to the Financial Statements.

Financial statistics for the past nine years appear on page 24 of this report.

UNION OIL COMPANY OF CANADA LIMITED

and its wholly owned subsidiary

CONSOLIDATED BALANCE SHEET

ASSETS	1970	1969
CURRENT ASSETS		
Cash	$ 396,000	$ 352,000
Short term deposits	1,801,000	—
Accounts receivable	8,738,000	7,009,000
Inventories (Note 5)		
Crude oil, condensate, sulphur and refined products	1,955,000	2,287,000
Materials and supplies	847,000	955,000
	13,737,000	10,603,000
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 7)	160,487,000	151,896,000
Less: Accumulated amortization, depletion and depreciation	42,541,000	36,963,000
	117,946,000	114,933,000
OTHER ASSETS		
Long term receivables	524,000	391,000
Investment in non-controlled companies, at cost	923,000	1,501,000
Operating and performance deposits	613,000	738,000
Prepaid and deferred charges	904,000	937,000
	2,964,000	3,567,000
	$134,647,000	$129,103,000

Approved by the Board of Directors

Fred L. Hartley Director

W. E. Tarrar Director

LIABILITIES	1970	1969
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 8,981,000	$ 7,888,000
Bank loan	—	1,960,000
	8,981,000	9,848,000
TERM LOAN	—	2,040,000
DEFERRED INCOME TAXES (Note 3)	5,739,000	4,689,000
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 8)		
Authorized		
7,500,000 shares of the par value of $1 each		
Issued and fully paid		
1970 - 4,789,430	4,789,000	—
1969 - 4,789,300	—	4,789,000
CONTRIBUTED SURPLUS (Note 8)	73,160,000	73,156,000
	77,949,000	77,945,000
EARNED SURPLUS	41,978,000	34,581,000
	119,927,000	112,526,000
	$134,647,000	$129,103,000

UNION OIL COMPANY OF CANADA LIMITED

and its wholly owned subsidiary

CONSOLIDATED STATEMENT OF EARNINGS YEAR ENDED DECEMBER 31

INCOME	1970	1969
Sales of crude oil, condensate, natural gas, liquefied petroleum gases, sulphur and refined products	$ 39,293,000	$ 35,885,000
Other income	1,410,000	1,258,000
Total income	40,703,000	37,143,000
EXPENSE		
Production	7,017,000	5,190,000
Exploration	1,393,000	1,103,000
Rentals on unproven lands	1,591,000	1,484,000
Amortization of unproven lands	3,915,000	3,665,000
Depletion	2,004,000	2,109,000
Depreciation	4,859,000	4,414,000
Dry holes and abandonments	1,962,000	1,992,000
Refining and marketing	7,715,000	6,866,000
General and administrative (Note 4)	3,057,000	2,469,000
Total expense	33,513,000	29,292,000
EARNINGS before provision for deferred income taxes	7,190,000	7,851,000
Provision for deferred income taxes (Note 3)	1,050,000	700,000
EARNINGS FOR THE YEAR before non-recurring profit	6,140,000	7,151,000
Non-recurring profit (Note 9)	1,257,000	—
EARNINGS FOR THE YEAR	$ 7,397,000	$ 7,151,000

CONSOLIDATED STATEMENT OF SURPLUS YEAR ENDED DECEMBER 31

CONTRIBUTED SURPLUS	1970	1969
Paid-in premium on shares issued		
Balance January 1	$ 73,156,000	$ 73,156,000
Additions during the year	4,000	—
Balance December 31	73,160,000	73,156,000
EARNED SURPLUS		
Net earnings retained in the business		
Balance January 1	34,581,000	31,419,000
Less: Adjustment for deferred income taxes (Note 3)	—	3,989,000
Adjusted balance January 1	34,581,000	27,430,000
Add: Earnings for the year	7,397,000	7,151,000
Balance December 31	$ 41,978,000	$ 34,581,000

CONSOLIDATED STATEMENT OF SOURCE AND EMPLOYMENT OF FUNDS YEAR ENDED DECEMBER 31

	1970	1969
SOURCE OF FUNDS		
Sales of crude oil, condensate, natural gas, liquefied petroleum gases, sulphur and refined products, and other income	$ 40,703,000	$ 37,143,000
Less: Expenditures for production, exploration, rentals on unproven lands, refining and marketing and for general and administrative expense	20,773,000	17,112,000
Funds provided from operations	19,930,000	20,031,000
Increase in term loan	—	2,040,000
Issue of shares (Note 8)	4,000	—
Disposal of property, plant and equipment	212,000	185,000
Sale of interest in non-controlled company (Note 9)	1,811,000	—
Net decrease in other assets	50,000	197,000
	22,007,000	22,453,000
EMPLOYMENT OF FUNDS		
Capital expenditures	15,966,000	19,106,000
Decrease in term loan	2,040,000	—
	18,006,000	19,106,000
INCREASE IN WORKING CAPITAL	$ 4,001,000	$ 3,347,000

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF ACCOUNTING PRACTICES

The Company's accounting practice is to charge to expense, when incurred, all exploration expenditures, including the cost of dry holes but excepting the cost of geophysical surveys which result in retention or acquisition of properties and also excepting the acquisition cost of oil and gas properties. These exceptions and the cost of successful wells are capitalized and, when appropriate, are amortized on a unit of production basis.

The costs attributed to unproven lands are amortized by charging to expense each year an amount calculated to write off these costs over the estimated period of retention of the lands concerned. When unproven lands are surrendered, the accumulated amortization is reduced by the costs attributed to such lands.

Depreciation on production equipment and facilities is calculated on a unit of production basis. The reserves used in this calculation are proven developed reserves. Depreciation on general facilities is calculated on a straight line basis.

Depletion in respect of investment in proven lands is calculated on a unit of production basis, using in the calculation total proven reserves, both developed and undeveloped.

Provision has been made for certain deferred income taxes, particulars of which appear in Note 3.

NOTE 2 — PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Union Oil Company of Canada Limited and its wholly owned subsidiary, Union Oil Holdings Limited.

NOTE 3 — INCOME TAXES

Under the provisions of the Income Tax Acts, each of the Company and its subsidiary company may deduct its drilling and exploration expenses from current income. Any excess of such expenses in any year may be carried forward to apply against future income. In addition, the Acts authorize capital cost allowances which may be greater than the corresponding depreciation recorded in the companies' accounts. As a result of the application of these provisions, no income taxes were payable by either of the companies for 1970.

At December 31, 1970, accumulated drilling and exploration expenses aggregating approximately $40,000,000 for both companies were carried forward for use in computing taxable income in future years. There remained at the same date approximately $27,800,000 of assets in respect of which capital cost allowances may be claimed. At December 31, 1969, the comparable figures were approximately $46,000,000 and $28,000,000.

Following general practice in the industry, the Company makes provision in the accounts for the amount of income taxes deferred by reason of the difference between income tax calculations and financial accounting practice relative to depreciable assets. The amount provided for deferred income taxes is $1,050,000 for 1970, and cumulatively $5,739,000.

It is not considered appropriate at this time to provide for income taxes which are deferred by reason of differences between income tax calculations and financial accounting practices relative to drilling and exploration expenses. While this view conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada, it differs from the income tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants, which would also make provision for income taxes deferred by reason of timing differences relating to drilling and exploration expenses. No provision has been made in the Company's accounts for income taxes which might be considered to be deferred by reasons relative to such expenses. If the deferred tax theory had been followed with respect to drilling and exploration expenses, earnings in 1970 would have been reduced by $1,300,000 ($1,950,000 in 1969), and the cumulative amount of deferred income taxes in respect of such differences to December 31, 1970, would have been $8,631,000.

If the deferred tax theory had been followed in respect of timing differences relating to both depreciable assets and drilling and exploration expenses, the total provision for deferred taxes which would have been required for 1970 would have been $2,350,000 ($2,650,000 in 1969), and the cumulative amount of such provision at December 31, 1970, would have been $14,370,000 ($12,020,000 at end of 1969).

NOTE 4 — REMUNERATION PAID TO DIRECTORS AND SENIOR OFFICERS

Statement required by Canada Corporations Act:

Total remuneration received from the Company and its consolidated subsidiary by directors of the Company, including directors who are officers, amounted to $66,144.

Statement required by certain provincial Securities Acts:

Aggregate direct remuneration paid or payable by the Company and its consolidated subsidiary to the directors and senior officers of the Company amounted to $230,220.

NOTE 5 — INVENTORIES

Valuation of inventories is at or below average cost but does not exceed net realizable value.

NOTE 6 — COMMITMENTS AND CONTINGENCIES

In accordance with relevant regulations, the Company has issued non-interest bearing demand notes which are on deposit with the governments of Canada and Alberta to guarantee the performance of exploratory work in respect of certain Crown oil and gas rights granted to the Company. These demand notes total $4,883,000 at December 31, 1970.

The Company has a contingent liability to purchase in certain circumstances, at a cost not exceeding $1,526,000, bonds of a pipeline company of which Union Oil Company of Canada Limited is a shareholder. The Company is contingently liable for the payment of principal (to a maximum amount of $2,725,000) and interest in respect of certain debentures of the same pipeline company.

NOTE 7 — PROPERTY, PLANT AND EQUIPMENT

	at December 31, 1970			
	Gross investment at cost	Accumulated depletion, depreciation and amortization	Net investment	Net investment December 31, 1969
Unproven lands	$ 26,650,000	$ 4,011,000	$ 22,639,000	$ 21,553,000
Proven lands	36,558,000	16,994,000	19,564,000	21,007,000
Exploration work in progress	1,046,000	—	1,046,000	1,016,000
Oil and gas wells and facilities	53,992,000	16,685,000	37,307,000	36,928,000
Gas plants and facilities	15,133,000	2,209,000	12,924,000	12,480,000
Marketing sites and facilities	14,575,000	693,000	13,882,000	11,825,000
Refinery	10,044,000	1,437,000	8,607,000	8,922,000
Other facilities and equipment	2,489,000	512,000	1,977,000	1,202,000
	$160,487,000	$42,541,000	$117,946,000	$114,933,000

NOTE 8 — SHARE CAPITAL

During the year, options granted in 1967 to certain employees and certain officers (one of whom is a director) to purchase 15,850 shares of the Company were cancelled (with the consent of the holders), none thereof having been exercised.

During the year, options to purchase shares of the Company were granted to certain employees, in respect of 5,100 shares, and to certain officers (one of whom is a director), in respect of 10,050 shares. The option price is equal to 90% of the market price at the time of grant. Options may be exercised within 10 years from date of grant. One option was exercised by an employee in respect of 130 shares in December, 1970, resulting in the following transaction:

			Credited to	
	Number of Shares	Total Consideration	Share Capital	Contributed Surplus
Issued for cash pursuant to stock options issued in 1970	130	$4,153.50	$130.00	$4,023.50

Details of shares under option at December 31, 1970:

Held By	Date Authorized	Shares	Price
Certain employees	September 17, 1970	4,970	$31.95
Certain officers, one of whom is a director	September 17, 1970	10,050	$31.95
Total shares under option December 31, 1970		15,020	

NOTE 9 — NON-RECURRING PROFIT

The sale of all of the shares held by the Company in Producers Pipelines Ltd., a non-controlled company, for $1,811,000, resulted in a non-recurring profit of $1,257,000.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF UNION OIL COMPANY OF CANADA LIMITED

We have examined the consolidated balance sheet of Union Oil Company of Canada Limited and its wholly owned subsidiary as at December 31, 1970, and the consolidated statements of earnings, surplus and source and employment of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970, and the results of their operations and the source and employment of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

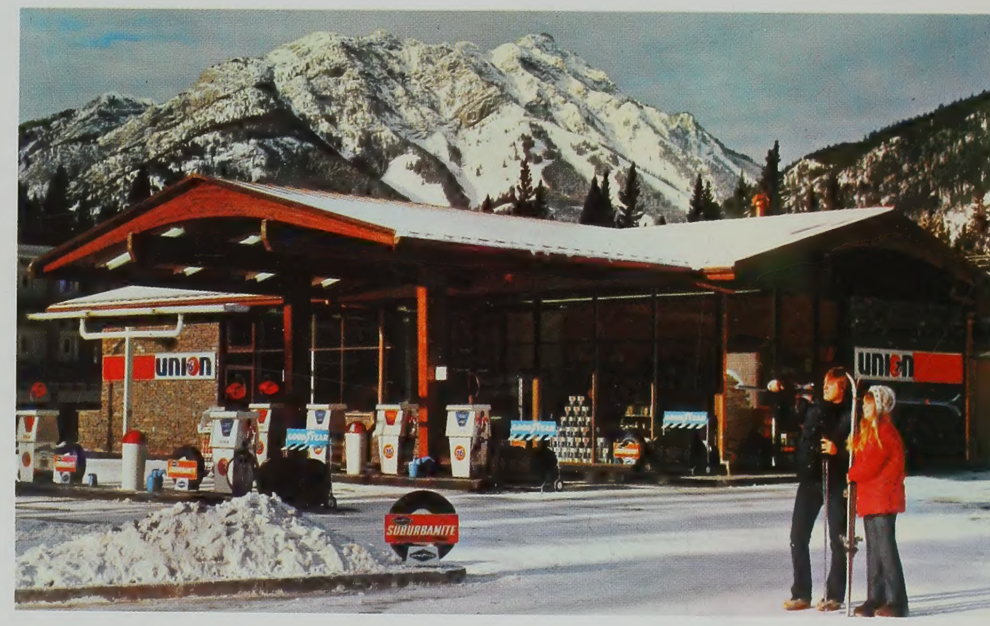
McDONALD, CURRIE & CO.
CHARTERED ACCOUNTANTS.

Calgary, February 12, 1971.

NINE YEAR STATISTICAL REVIEW

FINANCIAL (in thousands of dollars, except where otherwise specified)	1970	1969	1968	1967	1966	1965	1964	1963	1962
Income from all sources	**$ 40,703**	$ 37,143	$ 30,896	$ 25,265	$ 23,947	$ 12,277	$ 8,939	$ 7,478	$ 5,446
Cash expense	**20,773**	17,112	14,223	8,133	6,994	3,451	3,107	2,841	2,706
Cash flow from operations	**19,930**	20,031	16,673	17,132	16,953	8,826	5,832	4,637	2,740
Dollars per share	**4.16**	4.18	3.48	3.58	3.56	2.45	1.62	1.28	0.76
Non-cash expense	**12,740**	12,180	11,417	10,279	10,575	5,537	4,624	4,419	5,338
Provision for deferred income taxes	**1,050**	700	1,741	1,190	(362)	546	451	423	—
Earnings (loss) for the year	**6,140**	7,151	3,515	5,663	6,740	2,743	757	(205)	(2,598)
Dollars per share	**1.28**	1.49	0.73	1.18	1.41	0.76	0.21	(0.06)	(0.72)
Non-recurring profit on sale of assets	**1,257**	—	—	—	—	12,087	—	—	—
Dollars per share	**0.26**	—	—	—	—	3.36	—	—	—
Working capital	**4,756**	755	(2,592)	8,083	12,574	13,535	(104)	(12)	3,062
Property, plant and equipment, net	**117,946**	114,933	108,192	93,240	82,213	74,942	51,208	50,064	46,283
Investments and other assets	**2,964**	3,567	3,764	2,785	2,225	1,986	773	828	939
Total assets employed	**125,666**	119,255	109,364	104,108	97,012	90,463	51,877	50,880	50,284
Loans and other liabilities	**—**	2,040	—	—	101	23,367	167	378	—
Accumulated provision for deferred income taxes	**5,739**	4,689	3,989	2,248	1,058	1,420	874	423	—
Shareholders' equity	**119,927**	112,526	105,375	101,860	95,853	65,676	50,836	50,079	50,284
Dollars per share	**$ 25.04**	$ 23.50	$ 22.00	$ 21.27	$ 20.10	$ 18.24	$ 14.12	$ 13.91	$ 13.97
Number of shares issued and outstanding	**4,789,430**	4,789,300	4,789,300	4,789,300	4,768,050	3,600,600	3,600,000	3,600,000	3,600,000
Number of shareholders	**1,041**	1,037	1,212	1,310	1,451	1,865	2,272	2,096	2,387
Capital expenditures									
Development drilling	**$ 2,130**	$ 2,968	$ 5,276	$ 3,465	$ 4,436	$ 3,315	$ 2,182	$ 3,272	$ 1,572
Oil, gas and gas plant facilities	**3,412**	3,202	12,039	1,592	2,680	1,426	1,072	1,077	502
Exploratory drilling	**2,444**	1,226	1,796	1,685	2,426	1,511	839	1,105	774
Geophysical surveys	**3,009**	1,611	1,914	3,331	1,633	360	290	424	338
Acquisition of oil and gas properties and other rights and interests	**1,629**	3,858	934	2,591	27,196	1,554	1,409	2,331	5,681
Refining	**127**	1,286	337	6,125	1,893	278	—	—	—
Marketing	**2,417**	4,618	3,970	2,576	994	—	—	—	—
Other	**798**	337	158	170	110	103	30	30	47
Total	**$ 15,966**	$ 19,106	$ 26,424	$ 21,535	$ 41,368	$ 8,547	$ 5,822	$ 8,239	$ 8,914
OPERATING									
Average net daily production									
Crude oil and condensate (bbls.)	**31,920**	29,770	27,510	26,960	26,405	12,030	9,745	8,230	5,760
Liquefied petroleum gases (bbls.)	**1,369**	392	55	—	—	—	—	—	—
Natural gas (mcf)	**44,089**	42,653	36,496	25,915	24,028	13,700	10,600	11,500	10,400
Sulphur (long tons)	**241**	206	—	—	—	—	—	—	—
Net proven reserves									
Crude oil and condensate (000 bbls.)	**149,015**	148,109	145,737	143,937	133,079	127,483	52,988*	45,278*	40,985*
Liquefied petroleum gases (000 bbls.)	**6,428**	6,686	6,765	6,759	395	408	—	—	—
Natural gas (mmcf)	**472,506**	466,168	454,384	405,796	403,274	367,879	275,129	266,112	254,037
Sulphur (long tons)	**1,240,613**	1,317,771	1,278,279	1,241,202	659,279	249,129	—	—	—
Land holdings (000 net acres)	**5,681**	6,628	7,397	6,169	5,377	5,825	1,576	1,857	4,070
Number of employees	**329**	286	234	191	133	112	83	79	76

*Proven developed reserves only


union
SUBURBANITE


YUKON
WHITEHORSE
NORTHWEST TERRITORIES
YELLOWKNIFE
GREAT SLAVE LAKE
JUNEAU
PACIFIC OCEAN
STEWART
BRITISH COLUMBIA
FORT ST. JOHN
ALBERTA
GRAHAM ISLAND
EDMONTON
PRINCE GEORGE
CALGARY
KAMLOOPS
VANCOUVER ISLAND
VANCOUVER
VICTORIA
SASKATCHEWAN
MANITOBA
SASKATOON
REGINA
BRANDON
BEAUFORT SEA
MACKENZIE KING ISLAND
PRINCE PATRICK ISLAND
MELVILLE ISLAND
BANKS ISLAND
VICTORIA ISLAND
PRUDHOE BAY
ALASKA
TUKTOYAKTUK
INUVIK
FORT McPHERSON
YUKON
NORTHWEST TERRITORIES
Scale: 1" = 165 miles
LEGEND
UNION OIL COMPANY OF CANADA LIMITED
AREAS IN WHICH THE COMPANY HAS OIL AND GAS RIGHTS
Scale: 1" = 92 miles

union

UNION OIL COMPANY OF CANADA LIMITED

ALCRAFT • CALGARY
LITHOGRAPHED IN CANADA